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Peru

Agricultural Situation

Update

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Report Highlights:

The GOP announced its agricultural goals, which include doubling exports, incorporating new lands, and improving water management and financing.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Lima [PE1]
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Summary

In a recent meeting with over ten thousand agricultural producers, President Garcia established rather ambitious goals for Peru's agricultural sector. These goals, which the administration hopes to reach by 2011, include doubling agricultural exports to \$4.5 billion, creating 400,000 direct jobs, reducing rural poverty by 24 percent, reaching an annual growth of 7 percent and contributing \$12 billion to Peru's GDP.

The administration has identified five areas in need of significant improvement to achieve its goals:

Water Management

Improve water management. Increase drip irrigated area to 200,000 hectares on the coast, from the current 70,000 hectares, and establish 30,000 hectares in the highlands. Incorporate 100,000 new hectares of arable land in the highlands through small and medium-sized irrigation projects.

Passing a new water law will be an important component of improving water management in Peru. Currently water is almost free to producers; a medium size producer on a coastal valley pays around \$30 per hectare per year for water while the actual cost could be up to \$200. A proposed water law has been sitting in Congress awaiting discussion for the last ten years, but due to its political cost no administration has been willing to engage in its discussion.

Market Access

Establish an office within the Ministry of Agriculture to conduct market research, identify export opportunities and facilitate market access. This office will also be responsible for expanding at least ten markets, including U.S., E.U., China and Brazil. Currently, Peru's agricultural exports are \$2.1 billion and the administration's goal is to reach \$4.5 billion in the next four years.

Credit and Insurance

Strengthen Agrobanco, Peru's agricultural development bank, by increasing its equity from \$82 to \$320 million. Credit is expensive and very difficult to obtain for Peruvian farmers. There are two main concerns that keep banks away from agricultural producers: lack of collateral and high risk due to weather, markets and, in many cases, inefficiency. Despite demands from producers, Agrobanco only devotes about 20 percent of its funds towards direct lending. Most of its funds are channeled through intermediate financial institutions that are in the field and have better risk assessment capacities. Producers can only apply for direct credit if they are organized in a production chain that involves supplier, client and group guarantees.

Insurance is another issue that several administrations have discussed but failed to implement. The GOP is aiming to create an agricultural insurance system by 2008, which will initially protect farmers from natural disasters. Whether insurance companies are interested in serving this highly vulnerable sector remains to be seen.

Research and Extension

There have been extensive discussions and announcements by this administration highlighting the importance of agricultural research. However, neither the Ministry of Agriculture nor the Agricultural Research Agency (INIA) has a plan to meet the country's research needs. Meanwhile, the limited agricultural research carried out is decoupled from demand.

President Garcia mentioned the importance of research in increasing yields, specifically naming cotton, corn and potato as three crops that would immediately benefit from the reloaded research service. He also explained the importance of biotechnology in improving agricultural efficiency. However, all this enthusiasm has not translated to increased budgets for INIA yet.

Extension is another topic that is often raised by this administration, but no one has drafted an strategic plan to focus the very limited resources. Agricultural extension in Peru is practically non-existent; this responsibility has shifted from the Ministry of Agriculture to INIA to the regional governments several times, and it currently is not clear who will finally be responsible for it.

Rural Development

Apparently, the GOP will focus on subsistence farming to concentrate all its social projects, such as school programs, health, housing and income subsidies. For example, "Juntos" is a successful program that provides \$30 per month to extremely poor families in return for vaccinating their kids and making sure they attend school.

Two issues that producers are constantly demanding and have not been addressed by this administration yet are a check off system and a special tax regime for agriculture.

Producers organized in water management districts constantly demand that the government establish a mandatory check off system for every farmer. The plan is to use the generated funds for marketing and capacity building purposes. Previous administrations have argued that such a program would be unconstitutional since they cannot force producers to participate in it.

The special tax regime, which according to producers should consist of a flat tax replacing all others, is high on the producers' wish list. Due to its orthodox economic program, the GOP refuses to implement differentiated tax systems. However, considering that most Peruvian producers are informal (do not pay taxes), agreeing on such a measure might actually increase government revenues.